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Giving a Beginner a Chance in the 2007 Farm Bill

Jon Bailey

Center for Rural Affairs

Kim W. Preston

Center for Rural Affairs

Traci Bruckner

Center for Rural Affairs

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Giving a Beginner a Chance in the 2007 Farm Bill

Abstract

This report outlines training, support and programs that could help more young people enter agriculture. The report outlines how existing programs could be targeted for beginning and new farmers, as well as suggestions for new programs, such as individual development accounts. The study was supported by the Leopold Center's Policy Initiative (P2006-09).

Keywords

Policy, Human systems demographics and beginning farmer programs

Disciplines

Agriculture | Policy Design, Analysis, and Evaluation

Giving a Beginner a Chance in the 2007 Farm Bill



Jon Bailey
Kim Preston
Traci Bruckner

145 Main Street ■ PO Box 136 ■ Lyons NE 68038-0136
Phone: 402.687.2100 ■ Fax: 402.687.2200
Email: info@cfra.org ■ Website: www.cfra.org

CENTER *for* RURAL AFFAIRS



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ABOUT THE CENTER FOR RURAL AFFAIRS

Established in 1973, the Center for Rural Affairs is a private, non-profit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

ABOUT THE AUTHORS

Jon M. Bailey has been with the Center for Rural Affairs since 1998 and directs the Rural Research and Analysis Program. Jon is a 1980 graduate of Creighton University with a B.A. in Political Science, a 1983 graduate of the Creighton University School of Law, and a 1996 graduate of the College of William & Mary with a Masters in Public Policy.

Kim Preston has been with the Center for Rural Affairs since 1999 and is the Research Analyst in the Rural Research and Analysis Program. Kim received her B.S. in Family and Consumer Sciences in 1997 from South Dakota State University. Kim and her family live on a farm outside of Lyons, Nebraska, where they raise cattle.

Traci Bruckner has been with the Center for Rural Affairs since 2001 and is currently the Assistant Director for the Rural Policy Program. Traci is a 2001 graduate of Wayne State College with a B.S. in Political Science and Sociology. Traci is a member of the Sustainable Agriculture Coalition Coordinating Council. Traci also serves as a member of the USDA Advisory Committee on Beginning Farmers and Ranchers, appointed in 2006.

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Introduction

Addressing the challenges facing those who wish to become farmers and ranchers could not be timelier. In 1978, the United States had 350,000 farmers that were 34 years of age or younger. The USDA 2002 Census of Agriculture revealed about 70,000 people 34 years of age or younger listing their primary occupation as farming. Less than one percent of America's farmers are under 25 years of age, while nearly one-third are 65 or older. The fastest growing age cohort of farmers and ranchers are those 70 or older, the fastest declining is those 25 and younger. Such trends are not demographically sustainable. Traditional methods of farm and ranch entry and succession are no longer adequate to meet current challenges.

It is also essential to address the challenges facing mid-size farms and ranches. Mid-size farms are being squeezed nationwide, and recent USDA data show that these farms are quickly disappearing. In 1998, these farms represented over 28 percent of all farms in the nation, and three-quarters of the nation's "working farms" – those farms where the chief source of income and the primary occupation is farming or ranching. By 2002, the number of mid-size farms had declined by 41 percent.

While declining, it is important to note that, mid-size farms and ranches nationally continue to make up the largest share of working farms and continue to play a crucial role in many rural communities. They comprise the largest use of agricultural land and the number of people in mid-size farm and ranch families remains significant. The prosperity of mid-size farms and ranches and how public policy influences their prosperity continues to be a critical variable to rural community success.

A significant challenge today is the escalating cost of land. According to the February 2005 edition of the *Agriculture Newsletter* published by the Federal Reserve Bank of Chicago, land values in Iowa, Illinois, Indiana, Michigan, and Wisconsin increased by an average of 12 percent in 2004, with some states seeing increases as high as 14 percent. Increases of that magnitude were last seen in 1988 and 1979.

The escalating value of land in the Midwest has, at least in part, been fueled by public policy and the federal system of farm program payments.¹ Further, commodity crop production influenced by the federal system of farm program payments has been found to have negative economic and demographic impacts on rural areas. A study conducted by the Federal Reserve Bank of Kansas City found that federal agriculture programs "wed farming regions to an ongoing pattern of economic consolidation" and federal farm program payments appear to "create dependency on even more payments, not new engines of growth" as farm payments are linked to sub par economic and population growth.²

However, opportunities in agriculture can be found elsewhere. Prospects for beginning and mid-size farms and ranches can be found in niche markets composed of consumers willing to pay premium prices for unique products and foods produced in ways they support. But broad-scale public policy that addresses the needs of beginning and mid-size farmers and ranchers to gain access to land and transition into high-value, niche markets lags far behind the demand.

This report examines a series of 2007 Farm Bill recommendations designed to address the challenges facing beginning and mid-size farmers and ranchers. We offer examples of how farmers and ranchers have responded to challenges present in 21st century agriculture and provide summaries discussing relevant issues taken from research previously published by others. Finally, this report forms a background of how these public policy recommendations would, if included in the 2007 Farm Bill, encourage a new generation of agriculturalists and ensure the future vitality of rural communities.

¹Branard, Charles. 2006. "Farm Real Estate Values," Chapter 1.2 in *Agricultural Resources and Environmental Indicators, 2006 Edition*. Washington, DC: United States Department of Agriculture, Economic Research Service; Duffy, Mike. 2006. *Iowa Farmland Value Survey*. Ames, IA: Iowa State University Extension. See, also, <http://www.extension.iastate.edu/landvalue/lvs2006/2006LVS.ppt>

²Drabenstott, Mark. 2005. "Do Farm Payments Promote Rural Economic Growth?" *Main Street Economist*, March 2005. Kansas City, MO: Center for the Study of Rural America, Federal Reserve Bank of Kansas City.

Beginning Farmer and Rancher Development Program

The Beginning Farmer and Rancher Development Program, authorized in the 2002 Farm Bill, is the first USDA program other than farm credit and debt financing programs targeted specifically to beginning farmers and ranchers. This competitive grants program will fund education, extension, outreach and technical assistance initiatives directed at new farming opportunities.

The Beginning Farmer and Rancher Development Program is targeted especially to collaborative local, state, and regionally based networks and partnerships to support financial and entrepreneurial training, mentoring apprenticeship programs, “land link” programs that connect retiring and new farmers, innovative farm transfer and transition practices, and education and outreach activities to assist beginning farmers and ranchers. Networks and partnerships may include cooperative extension, community based nongovernmental organizations, relevant USDA and state agencies, universities, community colleges, and other appropriate partners. No less than 25 percent of funds are targeted to limited resource and socially disadvantaged beginning farmers and ranchers and to farm workers seeking to become farmers or ranchers. There is a 25 percent cash or in-kind matching requirement. Grant terms may not exceed three years.

The program also establishes education teams, made up of representatives of colleges and universities, cooperative extension, non-governmental organizations, and agencies to develop curriculum and educational modules geared to different regions and farming systems. The curriculum and educational modules could include segments on new markets, new crops, and value-adding enterprises.

Proposal

As part of the 2007 Farm Bill’s Beginning Farmer and Rancher Initiative, the Beginning Farmer and Rancher Development Program should be reauthorized and funded for at least \$20 million per year in annual mandatory farm bill funding. Funding for the curriculum development teams should be capped at no greater than 20 percent of the total funding. These teams should include an emphasis on financial literacy and preparing beginning farmers and ranchers to access credit. Language should be added to

ensure regional balance in the allocation of funding. Priority should be given to partnerships and collaborations that include non-governmental and community-based organizations with expertise in new farmer training and outreach. Refugee and immigrant farmers should be specifically included in the list of qualified groups eligible for the 25 percent funding set-aside. A new section on grant evaluation criteria should be added and include relevancy, technical merit, expertise and track record of the principal partners, participatory evaluation, outcome-based reporting, and plans for communicating findings and results beyond the immediate target audience.

Analysis

Our research of existing case studies has shown that this program is needed for many farmers and ranchers, not just beginners. Education can help create an agricultural environment that practices conservation-based farming and natural resource management. If there is a program available that allows farmers and ranchers to gain access to research and information on sustainable farming practices and network with those who have similar operations, many young farmers and ranchers would be more likely to start operations that are friendlier to the land and environment, access high-value niche markets and do not require them to farm the entire countryside to make ends meet.

Technical assistance is crucial when developing a farm or ranch plan, especially when considering a capital transfer or “land linking” program that connects retiring and beginning farmers and ranchers. An example is Land Stewardship Project’s Farm Beginnings® class. The class consists of 34 hours of goal setting, financial planning, business plan creation, alternative marketing, and low-cost sustainable farming techniques. Participants are encouraged to develop a sustainable business plan that enhances their quality of life/goals. Established farmers and other professionals such as lenders and agricultural business instructors present seminars, providing a strong foundation of community resources, networks and contacts for those interested in farming.

Business Management Skills

Matt Fendry started a dairy farm immediately out of high school. With very little business management experience, Farm Beginnings® provided him the education he needed to grow his herd of dairy cows from 15 to 22 and is now running a certified organic dairy farm. (*Farm Beginnings® graduate; Land Stewardship Letter, October/November/December 2004*)

Mentoring and Apprenticeship

Jon Kaiser also started a grass based dairy farm. Through Farm Beginnings® he was able to network with existing dairy farmers running similar operations. He met Dan and Muriel French. He began a share milking operation with the French family. This partnership gives him the experience he needs to successfully run his own farm some day, while keeping his debt to a minimum. (*Farm Beginnings® graduate; Land Stewardship Letter, October/November/December 2004*)

Education and Outreach Activities

Lyle Kruse owns 200 acres, half of which is corn, soybeans, and other small grains and the other half is pasture for 30 cows. Wanting to turn his operation to organic, he enrolled in Farm Beginnings®. He found a mentor who rotationally grazes and has taught him much of what he now knows about farming. (*Farm Beginnings® graduate; Land Stewardship Letter January,/February/March 2006*)

The Importance of Education

Our educational institutions at all levels have an important role to play in providing options and opportunities to farmers and ranchers and educating a new generation of agriculturalists. Among the things land-grant universities can do to promote value-added and niche marketing opportunities are:

- Identify potential clusters of farmers and enhance nascent activities. Universities can sponsor activities that bring like-minded people together, such as seminars.
- Involve university research facilities and researchers to form relationships with local networks of farmers. Local networks can be encouraged by “implementing actions such as the adoption of more participatory research designs and joint establishment of a research agenda.”
- Enhance farmer network use of external networks by creating links with other networks and experts in other states through activities such as sponsoring meetings or workshops of farmers interested in alternative agricultural systems.
- Publicize success stories through university extension and communication activities
- A university has a unique position to “influence both new generations of employees and agency staff already in place” through curriculum and training. More courses and trainings could emphasize technological, organizational and philosophical objectives of farmer networks and alternatives ventures.

Our secondary schools also have a crucial role in developing a new generation of farmers and ranchers. Research on farmers in Oklahoma involved in value-added ventures found that restoring high school agriculture programs would “help grow a fresh crop of young farmers.” Further, those school agriculture programs should focus on a broader set of agricultural options; farmers in Oklahoma, for example, stated that school agriculture programs could demonstrate to students how much money could be made in raising vegetables rather than “pushing show animals.”

University of Missouri. 1996. New Farmer Network Groups and the University: A Case Study of Missouri’s Green Hills Farm Project. Columbia, MO: Division of Applied Social Sciences, University of Missouri.

McDermott, Maura, ed. 2006. Closer to Home: Healthier Food, Farms and Families in Oklahoma. Poteau, OK: Kerr Center for Sustainable Agriculture.

Individual Development Accounts for a New Generation of Farmers and Ranchers

The first Individual Development Account program specifically targeted to beginning farmers is currently underway in California. This Beginning Farmer and Rancher Individual Development Account uses special matched savings accounts to promote a new generation of farmers and ranchers by assisting those of modest means to establish a pattern of savings. The account proceeds may be used toward capital expenditures for a farm or ranch operation, including expenses associated with purchases of land, buildings, equipment, infrastructure, livestock, or toward training. The Beginning Farmer and Rancher Individual Development Account program is patterned after the more urban influenced Individual Development Account programs administered by the Department of Health and Human Services that are targeted at home buying, post high school education and small business development.

Proposal

The 2007 Farm Bill should institute a Beginning Farmer and Rancher Individual Development Account pilot program. The program would be administered through the Farm Services Agency and include at least 15 pilot state programs with authority for each to enroll up to 25 participants. The program would provide up to \$10,000 per year for each account and be contingent on a local match of 20 percent. Up to 20 percent of total funding would be for implementation, outreach, and financial literacy training. The Farm Bill should provide \$4.5 million per year for five years for the IDA pilot program. The program should include an annual and five-year evaluation processes.

Analysis

A program like this could be key for beginners, especially when looking at business transfers involving retiring farmers and ranchers. Many transition plans are aggressive and involve a great deal of saving on the part of the beginner.

However, our research has shown that many of these plans are spread over a number of years, ranging from three year plans to ten year plans. This long-term plan helps to minimize the burden on the new farmer as he or she is establishing their operation and decreases the risks of the retiring owner. There is evidence that more financial assistance is necessary to link beginners with retiring farmers. If a plan requires a beginner to “buy out” the retiree, there often needs to be a stronger financial base.

This program could be beneficial to those entering niche markets or sustainable agricultural practices. Farmers and ranchers struggle through some lean years as they try to market their products. Securing funding for new agricultural ventures is sometimes difficult. Lenders are occasionally cool to ideas of sustainable or organic farming and/or alternative marketing. Lenders blame the lower productivity of sustainable or organic farming practices when considering operational financing. (See *Niche Markets, Heritage, and Agritourism case study on the following page*).

If denied credit, farmers and ranchers point to lenders' concerns about the small size of the operation, and the differences from conventional practices – lenders want the predictability offered by conventional agriculture. Other comments regarding lenders' cold feelings toward sustainable/organic farming practices included:

- Small farmers that practice sustainability can't get big enough to compete.
- Industries only look at yields.
- Should organic producers be eligible for loans and Loan Deficiency Payments since they already receive higher prices for their products?
- Agriculture credit is based on high yield farm practices.

(Sustainable Agriculture Learning Initiative findings. Center for Rural Affairs, 2003)

The Importance of Personal Savings

In 1993, Larry and Monty Mason returned home to the family farm. Not being interested in traditional agriculture, they began to explore their options. They discovered that raising buffalo would generate substantial income, and buffalo would be well suited to the abundant grasslands available to them from an expiring contract with the Conservation Reserve Program. In addition, the consumer market for buffalo meat was showing signs of substantial improvement. They needed capital to get started and found financing through commercial lenders. Soon they were on their way to a successful enterprise. Taking advantage of the buffalo market at the right time, they put much of their profits into the business. Today, with a failing market and little financial support from their lenders, the operation has folded. Had the family been able to establish a pattern of savings through a program such as the Individual Development Account, they may be in business today. (*Profitable Practices & Strategies for a New Generation Center for Rural Affairs, 2002*)

Individual Development Accounts at Work—California FarmLink

Carlos and Miguel Lopez, a father and son team, purchased a ten-acre farm, produce stand and home in San Benito County. The Lopez family used the funds saved through their Individual Development Account as a down payment on the property. California FarmLink, in cooperation with Cal Costal, a non-profit lender, and a realtor, helped the family secure a Farm Service Agency guaranteed loan. They secured this loan by using equity in the homes they owned.

This unique parcel is zoned to accommodate residential use, agricultural production, and retail. The purchase price was roughly \$900,000 and included a 3-bedroom home, a large commercial produce stand along a well traveled road, an agricultural well and access to irrigation water from the local district. The Lopezs are now farm owners and they direct market organic strawberries through Trader Joe's grocery store and several other outlets, including their produce stand.

Niche Markets, Heritage and Agritourism

The northeast Italian region of Vento is striving to become the "garden of Europe." This small, densely populated region of Italy is home to many small farms that must generate large returns on their agricultural products in order to support a family without off-farm income. The region also has flat ground and fair weather that allow it produce high quality products that can be transported relatively short distances to the large population centers of Europe. The European Union has instituted policies and initiatives that would allow farmers of the Vento region to access these high value markets and to allow children of farmers to join the family operation.

The European Union and Italian policies have shifted from encouraging high-volume commodity production for small- and mid-size and beginning farmers to encouraging more limited production of high-quality, high-value products, with an emphasis on regional food systems linked to tourism, culture and history. These goals are accomplished through public policy that encourages product identification and branding. Policy also often favors younger producers in poorer regions and in areas where conventional agriculture cannot be practiced.

European Union agricultural policy ties food into regional history, culture and traditions. This requires a commitment by both farmers and consumers to educate themselves on history, culture, traditions and the ability to differentiate them, which results in niche market opportunities. Agritourism policy is a significant complement to European Union agricultural policy. European Union policy includes funding to assist young farmers in producing geographically indicated products. Farmers, particularly young farmers, in Vento believe greater incentives and less risk are necessary to produce for niche markets and to connect products to agritourism.

Regional food, markets and agritourism are developing options for small- and mid-sized and beginning farmers in the United States. Issues and obstacles faced by agritourism operators in the United States are similar to those faced by farmers in Italy. The most common issues and obstacles faced by agritourism operators in Tennessee are: 1) promoting their enterprises; 2) finding and hiring qualified employees; 3) liability insurance; 4) identifying markets; 5) signage; 6) preparing business plans; 7) financing issues.

Sources:

Clemens, Roxanne. 2004. "Keeping Farmers on the Land: Adding Value in Agriculture in the Vento Region of Italy." MATRIC Briefing Paper 04-MBP8. Ames, IA: Midwest Agribusiness Trade Research and Information Center, Iowa State University

Bruch, Megan L. and Holland, Rob. 2004. *A Snapshot of Tennessee Agritourism: Results from the 2003 Enterprise Inventory*. Knoxville, TN: Center for Profitable Agriculture and University of Tennessee Extension.

Beginning Farmer and Rancher Down Payment Loan Program

The Down Payment Loan Program was established by the 1992 Agricultural Credit Act and implemented by USDA beginning in 1994. This special loan program reflects the dual realities of increasingly scarce federal resources and the significant cash flow requirements of most new farm operations. It combines the resources of the Farm Service Agency, the beginning farmer, and a commercial lender or private seller. Because the government's share of the total loan cannot exceed 40 percent of the price, limited federal dollars can be spread to more beginning farmers than is the case with traditional 100 percent government financed direct loans.

Seventy percent of total appropriated funds for direct farm ownership (real estate) loans are targeted to beginning farmers and ranchers. In turn, sixty percent of these funds are targeted to the down payment loan program until April 1st of each year. Unused guaranteed operating loan funds can also be transferred to fund approved down payment loans beginning August 1 of each year.

Under the program, Farm Service Agency provides a down payment loan to the beginning farmer of up to 40 percent of the farm's purchase price or appraised value, whichever is less. This loan is repaid in equal installments for up to 15 years, at a four percent interest rate, and is secured by a second mortgage on the land.

The beginning farmer must provide an additional 10 percent of the purchase price in cash as a down payment. The total purchase price or appraised value, whichever is less, currently cannot exceed \$250,000. The remaining 50 percent of the purchase price must be financed by a commercial lender or a private seller on contract. This private financing may also be backed by assistance from a state beginning farmer program, which can frequently provide lower interest rates and longer repayment terms than other loans from commercial lenders. The loan or contract must be amortized over a 30 year period but can include a balloon payment due anytime after 15 years of the note.

A commercial loan (for either farm ownership or operation) made to a borrower using the Down Payment Loan Program may be guaranteed by the Farm Service Agency up to 95 percent (compared to the regular 90 percent) of any loss, unless it has been made with tax-exempt bonds through a state beginning farmer program.

Throughout the 1990s this program was quite successful in creating new farmers, though loan making activity has slowed in recent years as interest rates have remained relatively low. From its inception to midway through the 2006 fiscal year, the Down Payment Loan Program has made loans to help 2,728 new farmers purchase their first land, for a loan volume of \$124 million.

In the 2002 Farm Bill, Congress, on the advice of the USDA Beginning Farmer and Rancher Advisory Committee, increased the USDA share of the partnership loans from 30 to 40 percent and increased the length of the government loan period from 10 years to 15 years.

Unfortunately, the last farm bill did not enact the additional proposed reform of reducing the Farm Service Agency interest rate for Down Payment loans from the current four percent to a floating rate set at a fixed percentage under the regular Farm Service Agency loan rate (e.g., four percent under regular direct farm ownership rates). In the recent run of low interest rate years, the Down Payment Loan Program differential has been too small to make much difference and therefore has reduced the attractiveness of the partnership approach. As a result, the vast majority of direct loans have returned to the traditional 40 year, 100 percent government financing approach or to a 50/50 partnership loans between Farm Service Agency and banks.



Proposal

The 2007 Farm Bill should make several adjustments to the Down Payment Loan Program, including, most importantly, setting the interest rate at four percent below the regular direct farm ownership interest rates or at one percent, whichever is greater. In addition, the maximum allowable farm sales price should be (a) changed to maximum allowable portion of farm sales price eligible for the down payment loan, and (b) increased from \$250,000 to \$400,000 to reflect market realities.

The Farm Bill should direct Farm Service Agency to utilize the down payment program or the 50/50 joint financing participation loans as the first choice option for real estate loans in all regions of the country. To provide Farm Service Agency with greater flexibility to respond to fluctuating demand, the funding set-aside for Down Payment loans should be combined with joint financing 50/50 partnership loans. Currently, at least 70 percent of total direct farm ownership loan funds are reserved for beginning farmers and ranchers, and 60 percent of that 70 percent is reserved

for Down Payment loans. We propose the 70 percent target continue, but with at least 70 percent of that total (i.e., roughly half of total direct farm ownership loan funds) in turn reserved for the combination of Down Payment loans and joint financing 50/50 partnership loans, through April 1st of each fiscal year.

Analysis

Finding financing is especially difficult for beginning farmers and ranchers. In a survey conducted by the Land Stewardship Project, 25 percent of responding farmers identified the lack of external funding as a major impediment to sustainable farming. With little or no experience behind the beginner farmer or rancher, many lenders consider them too great a risk. (*Getting a Handle on the Barriers to Financing Sustainable Agriculture: The Gaps Between Farmers and Lenders in Minnesota and Wisconsin*. Land Stewardship Project, 2003.) This program is one example of how alternative funding can open opportunities for beginning farmers and ranchers.



Loan Fund Set-asides and Inventory Land Sales Preferences

The 1990 and 1996 Farm Bills and the 1992 Agricultural Credit Act introduced a number of loan fund set-asides and preferences for beginning farmers and ranchers. For instance, 70 percent of all direct farm ownership loan funds appropriated by Congress each year are designated for beginning farmers and ranchers, with 60 percent of that total designated for Beginning Farmer and Rancher Down Payment loans. For direct operating loans, the set-aside is 35 percent. Guaranteed ownership and operating loan funds targets are 25 percent and 40 percent, respectively. Each of these loan set-asides are released for other types of borrowers at set times during the year if the demand from beginning farmers and ranchers does not fully subscribe the money. Guaranteed operating loan funds that are unused toward the end of each fiscal year are transferred to beginning farmer and rancher down payment and other real estate loans.

With respect to property obtained by USDA via foreclosure, the Farm Service Agency advertises acquired farm property within 15 days of acquisition. Eligible beginning farmers and ranchers are given first priority to purchase these properties at the appraised market value for the first 135 days after acquisition. If more than one eligible beginning farmer or rancher offers to purchase the property, the buyer is chosen randomly.

Proposal

All of the existing statutory loan fund set-asides and inventory preferences should be continued in the 2007 Farm Bill, with one modification. To provide FSA with greater flexibility to respond to fluctuating demand, the funding set-aside for down payment loans should be combined with joint financing 50/50 partnership loans. As of now, at least 70 percent of total direct farm ownership loan funds are reserved for beginning farmers and ranchers, but at least 70 percent of that total (i.e., roughly half of total direct farm ownership loan funds) should in turn be reserved for the combination of down payment loans and joint financing loans through April 1 of each fiscal year.

Analysis

These programs represent additional methods of alternative financing by which beginning farmers and ranchers are provided an opportunity to obtain land. Given the cost of land and the research highlighted herein on the financing challenges faced by beginning farmers and ranchers, these programs and the proposals to modify them are crucial for beginners seeking credit and available land. The credit programs also serve a significant need to beginners developing a long-term transfer or succession plan.



Beginning Farmer Land Contract Program

The 2002 Farm Bill established a Beginning Farmer Land Contract pilot program to allow USDA to provide loan guarantees to sellers who self-finance the sale of land to beginning farmers and ranchers. The pilot program is available in Pennsylvania, Wisconsin, Indiana, Iowa, Minnesota, North Dakota, Nebraska, Oregon, and California. In each state, up to five private contract land sales between a retiring and beginning farmer may be guaranteed under the terms of the pilot project.

The program is structured to provide the seller of the land a “prompt payment” guarantee. The guarantee would cover two amortized annual installments or an amount equaling two amortized annual installments. The guarantee also covers two years of taxes and insurance. The guarantee stays in effect for 10 years.

The buyer of a farm or ranch to be guaranteed must be: (a) a beginning farmer or rancher with at least three but not more than ten years experience in farming or ranching; (b) be the owner and operator of the farm or ranch when the contract is complete; (c) have an acceptable credit history demonstrated by satisfactory debt repayment; and (d) be unable to obtain sufficient credit elsewhere without a guarantee to finance actual needs at reasonable rates and terms. The purchase price of the farm or ranch to be

acquired cannot exceed the lesser of \$500,000 or the current market value. The buyer must make a down payment of five percent of the purchase price of the land.

Proposal

The 2007 Farm Bill should make the Land Contract pilot program part of permanent law as a regular nationwide program option. The current two-year limit on payment guarantee created by regulation should be extended to three years. Consideration should also be given to providing the land seller with an option of choosing either the three-year payment guarantee or a standard 90 percent guarantee of the outstanding principal.

Current tax law should also be modified to provide incentives to sellers of land to beginning farmers and ranchers. The prohibition on USDA loan guarantees being used in conjunction with state beginning farmer first-time farmer bonds or “aggie bonds”, which make interest income tax exempt if earned on loans or contract land sales to beginning farmers and ranchers, should be removed. Federal guarantees, combined with aggie bonds would provide a powerful incentive to lend and sell land to beginners and would mitigate the risk to lenders and sellers.



Targeting Conservation and Stewardship Incentives for New and Socially Disadvantaged Farmers and Ranchers

In Section 2004 of the Conservation Title of the 2002 Farm Bill, the Secretary of Agriculture is authorized to provide special incentives to beginning farmers and ranchers and limited resource producers to participate in federal agricultural conservation programs. This provision has resulted in several limited offerings by the Natural Resources Conservation Service through farm bill conservation programs, including a funding set-aside under the Conservation Innovation Grants program and ranking points for farm transition planning under the Farm and Ranch Land Protection Program.

The last farm bill also established a 15 percent cost-share bonus for beginning farmers and ranchers and limited resource farmers in the Conservation Security Program and Environmental Quality Incentives Program.

The intent of these provisions is to help achieve two important public policy goals: help new farmers and ranchers get started while encouraging them from the outset to adopt whole farm conservation plans and effective conservation systems. Adoption of sustainable systems is far easier at the beginning of an operation's history than later on once a system is in place at considerable cost and then needs to be changed or retrofitted.

Proposal

The 2007 Farm Bill should continue and strengthen the cost share differential for beginning farmers and ranchers in the Environmental Quality Incentive Program and Conservation Security Program clarifying that the cost share rate for beginning farmers and ranchers must be without exception at least 15 percent greater than the underlying regular rate for a particular practice, and should in general be set at the 90 percent rate. The same cost share differential should also apply to socially disadvantaged farmers.

The 2007 Farm Bill should also continue but strengthen the general special incentives authority. The new bill should direct USDA to:

- Provide strong whole farm, total resource management conservation planning assistance through the establishment of dedicated funding for the development of cooperative agreements between the Natural Resources Conservation Service, Extension, non-governmental organizations,

and private technical service providers with appropriate expertise in addressing the needs of new and socially disadvantaged farmers and ranchers.

- As part of this conservation planning assistance effort, include technical assistance and training specifically on sustainable agricultural farming practices and systems that maximize the use of on farm biological resources, the application of skilled management and labor by the operator, and soil building, resource-conserving production techniques.
- Offer a financial incentive or bonus for beginning and socially disadvantaged farmers and ranchers to develop whole farm/ranch resource management system conservation plans as part of their participation in Conservation Security Program or Environmental Quality Incentives Program.
- Provide a substantial number of ranking points for beginning and socially disadvantaged farmers and ranchers within each and every farm bill conservation program that uses ranking systems to determine enrollment.
- Create an incentive to encourage landowners to rent to beginning and socially disadvantaged farmers and ranchers on a long-term, multiyear basis in connection with adoption and maintenance of conservation structures and management practices and systems through the Conservation Security Program, Grassland Reserve Program, or any other program featuring long-term conservation contracts.
- Continue to encourage farmland preservation initiatives that ensure continuity of use as working farmland through advance transition planning.

The Conservation Reserve Program should also be part of the new farmer and rancher conservation package. Not all Conservation Reserve Program contract holders will attempt to renew or extend their contracts. For Conservation Reserve Program land with good potential for returning to production using sustainable grazing practices or fully compliant conservation cropping systems, USDA should provide for special arrangements between existing owners and beginning farmers and ranchers.

Incentives for sales to beginning farmers and ranchers should include a special transition period several years prior to the end of the Conservation Reserve Program contract during which the beginner could start making conservation and land improvements. In the final two years of the contract, leasing to the beginning farmer could begin, while the Conservation Reserve Program rental payments to the contract holder would continue for the length of the original term, serving as an incentive to work with the beginner rather than to simply rent or sell the land to the highest bidder; this would secure a dual public purpose – preserving much of the conservation value while fostering new farming opportunities.

Analysis

Targeting conservation programs and funding for beginning farmers and ranchers is good policy because it will assist a

new generation of farmers in establishing effective conservation systems at the beginning of their farming career. In addition, assisting socially disadvantaged farmers and ranchers in establishing and maintaining conservation systems and practices on their farms will not only lead to more conservation on the land, it will also provide better access to these programs for a historically underserved constituency.

Beginning and socially disadvantaged farmers and ranchers can use the increased assistance through conservation programs to help them implement systems that will enable them to tap into high-value, niche markets requiring such production methods. These markets will in turn provide them the opportunity to become successful farmers and/or ranchers and earn a greater share of the food system dollar.



Conservation Incentives at Work for New and Beginning Farmers

Brad and Leslea Hodgson own 100 acres, converting the crop ground to pasture for a beef grazing operation. The broken down fields and farm are covered with grass and trees, and the couple is in the process of starting their herd of cows. When the farm has needed major improvements, they have found help. They received money for fencing through the Environmental Quality Incentives Program and qualified for the Conservation Security Program at the Tier 3 level. Through the Conservation Security Program, they will receive \$60,000 over the life of their 10-year contract to help them further develop their managed rotational grazing system. (*Farm Beginnings* ® graduate; *Land Stewardship Letter*, October/November/December 2005)

Jennifer and Ray Mark are a father and daughter living on a 200 acre farm. Ray ran a dairy and sold it while Jennifer was in college. He rented out the ground and took a job in town. Jennifer has come back to the farm, in hopes of revitalizing the operation. They are working on converting the ground to pasture, have chickens and Border Lester sheep. They sought Environmental Quality Incentives Program money to help (cost-share) double their 30 acre pasture. They are considering bringing dairy back on a very small scale to protect the water table. (*Farm Beginnings* ® graduate; *Land Stewardship Letter*, October/November/December 2004)

Conservation Security Program

The Conservation Security Program is a comprehensive incentives program providing financial and technical assistance to farmers and ranchers who develop and maintain conservation systems that address critical natural resource and environmental concerns. The Conservation Security Program rewards them for investments of labor, management, and capital aimed at fostering healthy, productive, and soils, clean air and water, energy savings, and wildlife habitat.

The Conservation Security Program offers graduated tiers of enrollment leading to whole farm, total resource management systems at the highest level. In its first three years, the Conservation Security Program enrolled nearly 20,000 farmers in 280 watersheds across the country, obligating over \$2 billion in long-term contracts on 16 million acres.

While progress has been made in launching the Conservation Security Program, post-farm bill funding cuts and administrative implementation decisions have restricted enrollment opportunities to a limited number of specific watersheds, in contrast to the intent of the 2002 Farm Bill that the program be available nationwide on a regular basis.

Proposal

- **Scope and Funding** -- The Conservation Security Program should be retained as the primary stewardship incentives program to reward conservation systems on land in agricultural production. Conservation Security Program funding should be set to achieve enrollment opportunities for all farmers and ranchers on a nationwide and continuous sign-up basis. If not continuous, then sign-up periods should be predictable with sufficient advance notice to farmers and ranchers so they can determine steps needed to achieve eligibility and undertake the conservation planning required by the Conservation Security Program. Technical assistance funding for the Conservation Security Program should unambiguously provide for sufficient and timely technical assistance capacity.
- **Natural Resource and Environmental Criteria**—The natural resource requirements for participation in the Conservation Security Program should be refined based on lessons learned in the first years of program implementation. The eligibility bar for

participation should be set at a high stewardship level and the payment structure should encourage new practices and activities and continual improvement.

- As a condition of eligibility, scores on performance-based, outcome-oriented indices should be sufficiently high to indicate that a very effective conservation effort has already taken place. The farm bill should reemphasize the central importance of conservation planning to the Conservation Security Program, a dimension of the program which has not been implemented by USDA. Farmers should be given the option of meeting eligibility within the early years of the contract period, with payments delayed until the required activities are implemented.
- The Conservation Security Program's multi-tiered approach to dealing with resource concerns should be retained but the number of resource concerns addressed within each tier should be expanded. Wildlife habitat should be included as a mandatory resource concern at Tiers II and III. Tier III should require the adoption of resource conserving crop systems on annual cropland and managed grazing on pastureland. Tiers II and III should retain the requirement to cover the whole farm. USDA should coordinate joint participation by organic farmers in the Conservation Security Program and the National Organic Program.
- **Payments**—The Conservation Security Program's payment structure should be reformed to increase incentives for natural resource and environmental enhancements and to drop or modify payments that do not support this goal. The current declining enhancement payment structure adopted by regulation should be dropped. The base stewardship per acre rental rate payment should be converted to a modest flat sum payment for conservation planning. Congress should require that new practice cost-share assistance finally be implemented. Enhancement payments should remain the focus of the program, to recognize achievement of high conservation standards and encourage adoption of even more advanced environmental management. All Conservation Security Program

payments that are made on a per acre basis should include floor amounts to ensure equity for farmers and ranchers with smaller acreage operations. The Conservation Security Program payment system should be simplified to ensure continued progress toward outcome-based measures for payments, with higher payments provided for higher levels of conservation. The Conservation Security Program should retain sensible, moderate, loophole-free payment caps.

- Provide a special initiative through the Conservation Security Program that focuses on keeping land in grass by providing financial incentives such as a 40% payment bonus for beginning farmers and ranchers to develop and improve grazing lands.

Analysis

Properly implemented and fully funded, the Conservation Security Program would reward the stewardship practices of beginning and mid-size farmers and ranchers, with payments based on how the operator manages the land to protect the environment. Such payments are more likely to remain with the operator, unlike payments based on type and amount of production. High-value, niche markets are based upon production methods demonstrating natural resource protection. Combining that opportunity with the Conservation Security Program provides meaningful incentives to encourage a new generation of farmers and ranchers.

Farmers' Perception of the Conservation Security Program

Since the Conservation Security Program's inception, much has been done to gauge the public's response to the program as well as how the program is implemented and what kinks need to be worked out. Our case study research has led to two surveys of farmers who signed up for the program and received contracts.

Overwhelmingly, farmers responding to surveys support the Conservation Security Program. There is a demonstrated need for more education for those applying for and receiving contracts. The majority agreed that because of the Conservation Security Program their farm/ranch was more profitable.

Farmers and ranchers agree that a policy that supports them financially for their conservation ethic, rather than their productive capacity, should be available to all who will use good conservation practices.

"The Conservation Security Program should be in the next farm bill. If we're going to get government money that's a good place [conservation] to spend it. It's better than the grain deals." (MN Project)

"I appreciate it and know that people here could benefit a lot more if it was available everywhere. It would be a big cost, but in the long run it would be worth it." (MN Project)

"We finally have a government program that pays for social and environmental benefits and it is a step in the right direction and has good bi-partisan support." (CFRA)

"There are a lot of good points and strengths. In our circumstance it showed that you can still use tillage and don't need to be no-till. I always tried to farm the way that I thought was conservation oriented and this is a way to have a third party verify our practices." (CFRA)

Gieseke, Tim. 2007. *Conservation Security Program Drives Resource Management: An Assessment of CSP Implementation in Five Midwestern States*. Minnesota Project, Illinois Stewardship Alliance, Land Stewardship Project, Michael Fields Agricultural Institute, Missouri Rural Crisis Center, and Practical Farmers of Iowa.

Bruckner, Traci. 2006. *The Conservation Security Program: An Assessment of Farmers' Experience with Program Implementation*. Center for Rural Affairs.

Value-Added Producer Grant Program

Background

Created by the Agricultural Risk Protection Act of 2000 and expanded as part of the 2002 Farm Bill, the Value-Added Producer Grants (Value Added Producer Grant) program is a competitive grants program administered by USDA's Rural Business-Cooperative Service. The program makes grants to producers and producer-controlled entities to develop value-added businesses and thereby enhance farm income, farm and rural self-employment opportunities, community economic development, consumer food choices, and natural resource protection.

The Value Added Producer Grant program helps create market-based solutions to farm income problems. Remaining on the land increasingly requires the ability to add value to basic agricultural products through branding, processing, product differentiation, labeling and certification, and skillful marketing. The Value Added Producer Grant program provides assistance to independent producers to pursue market opportunities that will add value to their agricultural operations and raise their incomes. The grants may be used for a number of different activities, ranging from writing business plans to establishing a working capital fund.

Value-added products include those converted from raw products through processing to increase market value through higher prices, expanded markets, or both. Value added products also include those whose incremental value result from inherent product attributes such as geographical location, environmental stewardship, food quality or safety, or functionality, including efforts to communicate these attributes to consumers through certification, verification, and labeling programs.

The program was authorized in the 2002 Farm Bill to receive mandatory funding at \$40 million annually through 2007, though annual appropriations bills in 2004-2006 have unfortunately reduced program investments by \$70 million. Since first being implemented in 2001, the Value Added Producer Grant has been able to fund less than 30 percent of eligible applications. In spite of the demand for the program, Congress has reduced program funding for three straight years by inserting limitations via the appropriations process.

Proposal and Analysis

The 2007 Farm Bill Should reauthorize the Value-Added

Producer Grant Program and provide it with \$60 million annually in mandatory funding. In addition, the 2007 Farm Bill should make the following modifications to the program:

- Develop authorizing language placing a high priority for use of the Value Added Producer Grant program grant funds on proposals that are most likely to increase the profitability and viability of small- and mid-sized farms and ranches. A stated goal in the authorizing language of the Value Added Producer Grant program should be to create self-employment opportunities for farmers and ranchers that increase the profitability and viability of small and mid-sized farms and ranches, as well as conserving and enhancing the protection of land, water and other natural resources.
- Prioritize projects that strengthen the profitability and viability of small- and medium-sized farms and ranches and/or increase farming opportunities for beginning farmers and ranchers -- perhaps through a scoring system that provides substantial additional points for proposals advancing this objective.
- Some states have competed far more successfully for Value Added Producer Grant grants than others. The 2007 Farm Bill should include a provision for special outreach and attention to states that have little or low participation in the program to date. In addition, for all states, a small portion of total Value Added Producer Grant funding should be set-aside for grants to non-profit and educational organizations to provide technical assistance for grant proposals, with significant consideration to areas where project proposals are less successful or numerous.
- Create a set-aside of no less than 10 percent but up to 15 percent of Value Added Producer Grant program funding for projects concerning beginning farmers and ranchers.
- Eliminate the presidential initiative on energy in the Value Added Producer Grant program, while adequately funding other energy-related programs within USDA and other agencies that could meet the requirements of this initiative. Funds appropriated to the Value Added Producer Grant program should be used for other purposes and not compete with large energy related projects that are an increasingly sizeable share of projects funded.

- Include funding to train national and state level Rural Development staff in ways the Value Added Producer Grant program can assist small- and mid-size and beginning farmers and ranchers and rural communities. Include small- and mid-size farmers and ranchers and rural community business and other leaders, rural researchers, extension agents and other potential beneficiaries in the training.
- The Value Added Producer Grant program's application process should also be refined and made more accessible and user-friendly. While this can largely be achieved through administrative implementation, Congress should authorize a separate, less complex application procedure for smaller grants, and require the publication by USDA of an eligibility assessment tool handbook to be made available to potential applicants.

Recent Iowa Value-Added Producer Grant Program Recipients

Iowa Lamb Corporation: \$437,500 for operating costs for a new fresh lamb case-ready market launch. As one of the three largest lamb producers in the U.S., they are partially owned by the producers. 1999 gross sales were \$61,272,183 and 2000 were \$62,335,931. They process 450,000 lambs per year/up to 2,500 per day. There are 12 producer owners in Iowa and approximately 500 producers in 14 other states. The money will be used in the process of making the lamb meat case ready for stores – eliminating the need for local stores to cut the meat and repackage it. The price local stores pay for the meat will increase with the increased price going back to the packing plant for their increased labor costs and the remainder will go back to the producers. Hawarden, Iowa www.summitcreeklamb.com

Vande Rose Ready to Eat Smoked Pork Burgers: \$248,000 for finalizing a feasibility study, salary for marketing director, marketing study and plan, and working capital. Nine families (8 are producers and 1 is a processor) producing 37,000 hogs (farrow to finish) make up the LLC. According to their website, they are the second supplier of pork products to Preferred Meats, see Eden Natural. They raise Duroc pigs. Oskaloosa, Iowa www.vanderosefoods.com

Leval, Kim and Bailey, Jon. "The Impact and Benefits of USDA Research and Grant Programs to Enhance Mid-Size Farm Profitability and Rural Community Success". Center for Rural Affairs. August 2006.

Value-Added Enterprises: Motivations and Challenges

Farmers and ranchers have varying and often very personal motivations for initiating a value-added enterprise. Generally, most see value-added enterprises as an opportunity to use the products they grow or raise in innovative and lucrative ways

A study of small, independent farmers in California found four primary motivations in the development of value-added products: 1) as a solution to waste problems; value-added enterprises are an excellent use of extra, less-than-premium quality products; 2) as a potential profit and farm income stabilizer during slow seasons; depending on products grown or raised, the uses for some products are often better in the winter when other products are not available; 3) value-added enterprises allow for control over pricing, as a farmer or rancher can set his or her own prices and choose own market outlets, and consistently receive the asking price; and 4) value-added enterprises afford an outlet for creativity.

Value-added ventures may also have extra costs and regulatory or compliance issues. For example, ventures may have an extension of current costs, compliance with healthy and safety codes, additional labor costs, and marketing costs.

One challenge faced by agricultural entrepreneurs is knowing what to charge for their products. To address this challenge, farmers and ranchers involved in value-added ventures recommend knowing one's clientele and providing consumer education to educate them on quality and the need to charge premium prices.

Ohmart, Jer L. 2003. *Direct Marketing with Value-Added Products (or: "Give me the biggest of those berry tarts!")*. Davis, CA: University of California Sustainable Agriculture Research and Education Program.

Targeted Risk Management Education for Beginning and New Farmers

In implementing its risk management education and partnership programs, the Risk Management Agency and the Cooperative State Research, Education, and Extension Service has begun to fund some projects aimed specifically at beginning, immigrant and new farmers. These efforts should be continued and accelerated. The Federal Crop Insurance Act specifically authorizes an ongoing education program managed by Risk Management Agency and an ongoing partnership program for risk management education managed by Cooperative State Research, Education, and Extension Service. Both programs receive \$5 million annually in mandatory funds. Education includes a focus not only on traditional risk management products (crop insurance, futures, options, forward contracts, etc.) but also on crop and enterprise diversification, natural resource and environment planning, accessing new and value-added markets, debt reduction and asset-building strategies, as well as many other methods to manage risk.

Proposal

The 2007 Farm Bill should amend the Federal Crop Insurance Act to include within the existing risk management education and partnerships programs a special emphasis on

risk management strategies and education and outreach specifically targeted at beginning farmers and ranchers, immigrant farmers and ranchers who are attempting to become established producers in this country, farmers and ranchers who are preparing to retire and are using transition strategies to help new farmers and ranchers get started, and new and established farmers and ranchers who are converting their production and marketing systems to pursue new markets. In addition, language should provide for an emphasis on modifying or adapting the actual risk management tools to the unique needs of beginning and socially disadvantaged farmers and ranchers.

Analysis

One proven way for new farmers and ranchers to increase their share of the food dollar is through niche marketing. Risk management education is crucial in the planning and implementation of these types of plans. Risk management strategies need to be adapted and expanded to meet the specific needs of new farmers, particularly as they get started.

The Importance of Marketing: Know Your Customer

Farmers involved in direct marketing activities state that one must get a sense of one's market through direct contact with their customers. Direct contact with customers puts a face on agriculture and links consumers and the producer. To be successful, agricultural direct marketing must involve "a combination of face-to-face embedded social relations and economic instrumentality."

Many farmers, however, are not born or trained marketers. A study of beginning immigrant farmers in California found that advice and training to farmers should be practical, have demonstrated success and be accompanied by constant strong support. Such support can be financial, translation or other assistance in filling out forms, or detailed and thorough assistance in taking advantage of existing resources.

California farmers expressed the need for more marketing support, expressly detailing the lack of outlets and marketing supports and the need to explore more cooperative marketing arrangements

Farmers in Georgia doing direct marketing through farmers' markets say it works well for new farmers to start a new farmers' market together. Development of a market and customer base will allow farmers to learn together and increase production to meet demand.

Kambra, Kenneth M. and Shelley, Crispin L. 2002. *The California Agricultural Direct Marketing Study*. Davis, CA: California Institute of Rural Studies.

Pugh, Lynn. 2004. *Choosing Your Market: A Direct Marketing Decision Tool for Small Farmers*. Atlanta, GA:Georgia Organics, Inc.

The Importance of Marketing: Know Your Product

Knowing how one's product is unique and how to segment the market is crucial to any niche marketing strategy. Market segments are formed in two ways – they exist latently in market demand and are discovered by astute businesses, or are created by a businessperson who sees an opportunity. Each becomes apparent through experience or market research, methods to which beginning farmers and small- and mid-sized farmers may have little access.

A producer or processor entering a niche market or expanding output for a market must have two crucial pieces of information – the potential size of the market, and how to protect the market against competitors that would eventually eliminate long-term profitability. Markets for niche products are driven by consumer perceptions that they are higher value products, thus producing a willingness to pay a premium price. Traditional niche markets such as organic and local products have not captured premium prices from consumers by attempting to control supply or production imitation. The danger of such a marketing strategy is that such products will eventually follow the pattern of commodity markets.

At its basic, a niche market is a market segment, small, narrow and specific. Through product differentiation strategies, farmers can create niches or segments that have the advantage of reducing the “intensity of competition by targeting and securing a defensible segment in the market by excluding homogenous products.” Marketing a niche product also has the advantage of forming “networks, partnerships and contacts in urban areas, creating additional markets.”

Areas that can benefit from niche market crops are generally those located near urban centers; farmers in those areas can enhance market ties and opportunities. However, rural areas that are geographically secluded from urban centers, have poor soil conditions, severe topography and a depressed economy might also be able to engage in niche markets if such areas can create products that are different and marketed differently than others. Any such market must be a narrow segment of a relevant market and targeted to certain consumer.

Niche markets or farmer-owned brands must be based on a fixed attribute, the only way to assert supply control without violating price-fixing laws. Legal examples include requiring that products can only come from a select area justified on specific attributes of the region; limiting membership in a producer group to a relatively small number of high-quality producers based on some quality criteria or location; imposing strict production and/or quality standards (e.g., environmental); or using some ingredient or process over which the producer group can control access.

The commodification of U.S. agriculture does provide an opportunity to farmers and ranchers interested in developing products with unique attributes. The current system of American agriculture “eliminated thousands of traditional or regional production practices ... producers in every U.S. county probably could identify a unique way to make ice cream, cheese, sausage, or ham, or unique ways to feed pigs, cattle, chickens, or turkeys.”

An example of such an effort is found in the Japanese economic development strategy of “Isson Ippin Undo” – one village-one product – where villages and areas create market identity for themselves and their products distinct from any other village or area. Farmers in these areas grow crops that “fit the available land resources and create a mutual identity for the place and the product.” An American example of a local product with a fixed attribute could be beef originating from farms and packing plants along I-80; Japanese consumers have expressed a preference for such a product. *(Continued on next page)*

Farmers considering producing an unique, niche product must learn what products are profitable, which products have market potential, and what crops will generate income without depleting the land and environment. To accomplish this, business, marketing and agriculture education are needed, and resources and support systems—preferably centrally located—are needed for each type of education.

Morehead, John Sherrod. 2001. Niche Market Cropping and Rural landscape in Wise, Dickenson and Russell County Virginia. Masters Thesis, Virginia Polytechnic Institute and State University.

Clemens, Roxanne. 2002. "Why Can't Vidalia Onions Be Grown in Iowa? Developing a Branded Agricultural Product." MATRIC Briefing Paper 02-MBP3. Ames, IA: Midwest Agribusiness Trade Research and Information Center, Iowa State University.

Hayes, Demot, J., Lence, Sergio H, and Stoppa, Andrea. 2003. "Farmer-Owned Brands?" Briefing Paper 02-BP39. Ames, IA: Center for Agricultural and Rural Development, Iowa State University.



Accessing New and Value-Added Markets

Kelly Biensen remembers going door to door selling his pork products. He visited with a local processor, who told him that what he was trying to do—give the producer the upper hand and greater share of the food profit had never been done—and was impossible. Later, Kelly had an opportunity to share his products with a nearby chef. Providing a side by side comparison of Eden Farms pork chops and the chops the restaurant had been serving, the chef tasted each and threw his current pork chop in the trash. This opened the door for Kelly and Eden Farms to market their products to other restaurants. In 1998, gross sales were \$9,800. By 2001 gross sales totaled \$223,000. By midyear 2002, sales had reached \$154,000 and were expected to reach \$300,000. Eden Farms applied for and was awarded a Value Added Producer Grant in 2001 for a feasibility study, business plan development and source verification for their Berkshire pork. According to the proposal, there were 17 producers with 70 more waiting for the market to expand.

Leval, Kim and Bailey, Jon. "The Impact and Benefits of USDA Research and Grant Programs to Enhance Mid-Size Farm Profitability and Rural Community Success". Center for Rural Affairs. August 2006.

Dedicated Research Funding for a New Generation of Farmers and Ranchers

Very little federal research funding currently is dedicated to new farming opportunities, farm transfer and succession, farm transition and entry, or farm viability issues. In relation to the upcoming transfer of some 400 million acres of land over the next two decades and the barriers to entry faced by new farmers, including those from socially disadvantaged groups, the funding for research and extension on these issues paltry indeed. The emerging generation of farmers includes both people with farm backgrounds and those without. Of those without farm backgrounds, many are coming to farming as a second or third career change. They are ethnically and culturally diverse and interested in a wide range of crop and livestock systems. Many of these new farmers do not have the same family or community connections that have served to launch previous generations of farmers. There is a substantial need for research and development regarding a wide variety of models for new farmer training, land transition, making rental land accessible as an entry option, lower risk production start-up options, and alternative financing throughout the nation for an increasingly diverse new generation of farmers and ranchers.

Proposal

The 2007 Farm Bill should include language in the research title making farm transfer and farm entry issues and the needs of beginning, immigrant, and socially disadvantaged farmers and ranchers a priority research area. The new farm bill should also incorporate language specifically designating a new national program area for these issues within the national competitive grants program.

Analysis

Through our research of existing case studies, we have found several examples of where this program could be useful to farmers and ranchers. First, we have looked at a number of different specialty meat, or niche market, ventures. These ventures work best when a number of individuals are working together, not only to spread out the initial costs, but to also have enough animals to fill market demand once it is established. Attributes needed in a cooperative, niche marketing venture include the following:

- Desire on the part of the individuals to venture from the ordinary way of raising and marketing their animals. This requires a sound plan and strict guidelines that many farmers and ranchers could have a difficult time completing.
- Individuals who are trained and capable of marketing, even if it means knocking on every door until they define their customer base. If you have the animals, but no market for them, farmers and ranchers are forced to sell them “conventionally”, where they will not experience the premium for their extra efforts.
- Financial assistance to start up cooperative ventures. Those entering a cooperative venture are typically looking for an alternative or a profit and many don’t have the financial resources to try something new.

Encouraging Linking Programs for New and Beginning Farmers and Ranchers

Many state programs that once ran “linking” programs are now defunct or are operating with little or no money. The National Farm Transition Network, a 501c(3) non-profit organization, strives to support programs that foster the next generation of farmers and ranchers. The network has identified the major barriers to beginning farming and ranching as:

- Insufficient farm entry strategies
- Insufficient farm succession, transition and retirement strategies
- Inability to acquire the initial capital investment
- Difficulty in identifying viable farm entry opportunities
- Difficulty in obtaining appropriate financial, managerial, and production assistance for entering and exiting parties
- Lack of appropriate community support (*Continued on next page*)

The Network has:

- Developed programs that link retirement and farm exit approaches with farm entry strategies. Programs representing at least twenty states have established Farm Link programs to "link" beginning and retiring farmers. The majority of these programs lack funding to meet demand. Many of these programs provide seminars and consultations that assist farmers in discovering ways to successfully transition viable farm businesses from one generation to the next. Although the desire to enter farming remains strong (i.e. with program ratios of beginning/retiring farmer inquiries running as high as 10:1), the barriers to entry remain formidable. All participating programs agree that one-on-one technical assistance and resource information and referral are essential. Some programs also use "how-to" regional and statewide workshops on farm transitions and other beginning and exiting farmer issues.
- Developed new transition and tenure strategies which facilitate the entry of the next generation and the exit of the existing farmer. These strategies are regionally appropriate and respond to the unique needs of the full range of existing farmers and land owners.
- Developed networking opportunities: The National Farm Transition Network holds annual conferences with the goal of sharing information, strengthening existing programs and helping to establish new programs. It maintains a web site and e-mail list serve.

Transition Plans at Work

Dave and Dan Bean have developed two transition plans, a three year and a ten year plan, to transfer their farming operation to Mark Groth of Garwin, Iowa. At the end of an aggressive three-year plan, Mark would have 20% ownership of the operation (cattle, equipment) while renting over 20% of the land. The remainder would transfer in the ten year plan. (*Profitable Practices & Strategies for a New Generation, Center for Rural Affairs, 2002*)

Amy and Terry Torea have a transition plan to take over Amy's parents dairy farm operation that spans 15 years. The cattle will be purchased during the first five year plan. During the next phase, also a five year arrangement, the couple will purchase the equipment. The final five year phase will buy the land. At the time of this case study, Amy and Terry's debt-to-asset ratio was relatively low, compared to the national average (1998). As they begin to purchase the land, that will change, but the long term plan has them on starting out on solid ground. (*Profitable Practices & Strategies for a New Generation, Center for Rural Affairs, 2002*)

Todd Stewart and Bob Warrick, Meadow Grove Nebraska, created a five year plan and a long term lease to make their transition work smoothly. They worked with the Center for Rural Affairs' Land Link program, linking retiring farmers and ranchers with those who are looking to start. Todd was careful not to take on too much debt as he relied on an FSA guarantee for his local financing to purchase the 320 acres he'd been renting. His operation is diversified enough that he has been able to weather low market prices and sells corn organically. (*Profitable Practices & Strategies for a New Generation, Center for Rural Affairs, 2002*)

Federal Commodity Programs and Beginning Farmers and Ranchers

In recent years, many of the original goals of commodity programs have been abandoned and replaced with outright production subsidies that encourage overproduction, low prices, and an export expansion orientation. Furthermore, the current set of programs has serious unintended negative consequences. Farmers are not well served by current law. It imposes no real limit on marketing loans gains and its loopholes ensure that limits on direct and counter cyclical payments affect almost no one who spends money on a good lawyer. Thus, it subsidizes the nation's largest farms to drive their neighbors out of business by bidding land away from them.

Large, aggressive operations use their payments to bid up land prices to get more acres. In the process, virtually all of the program benefits are bid into higher land prices – increasing cash rents, land payments and property taxes. As a result, farm program payments are offset by increased production costs and, in the end, do nothing to improve the income of farmers except on previously owned land.

In short, the current structure of commodity payments contributes to farm consolidation and the disappearance of mid-sized family farms, an increase in land prices well beyond market levels, and reduced farming opportunities for a new generation of farmers. Michael Porter observes in **Competitive Advantage** that when multiple firms engage in aggressive competition to become the high-volume, low-margin producer in an industry, the result for profitability can be “disastrous.” That is happening in counties across the American farm belt, fueled by uncapped federal payments.

Farm policy should instead foster agricultural systems based on family farms that nurture and sustain rural communities and the environment, promote a diversified and healthful food supply, foster widespread ownership of land, and strong agricultural development that promotes sustained opportunities for new and beginning farmers and ranchers. The current programs come up short on every count. Realizing that farm program reform is an evolutionary process, we believe the 2007 Farm Bill should focus on addressing the most serious negative consequences of current policy.

Proposal

- Eliminate loopholes that allow mega farms to receive double the limit by dividing the operation between spouses or into multiple legal entities.

- Strengthen the criteria for persons eligible for farm program payments by requiring significant active personal management and active personal labor in the farming operation. The exemption for cropshare landlords should be continued.
- Gains on generic certificates and on commodities forfeited to USDA to satisfy marketing loans should count toward the limit on loan deficiency payments.
- Congress should stop subsidizing the expansion of cropping into prairie grasslands by prohibiting commodity and conservation payments and subsidized crop insurance coverage on newly broken out grasslands.



Center for Rural Affairs
PO Box 136
145 Main Street
Lyons NE 68038
402.687.2100
www.cfra.org



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